

When an item of tangible personal property is sold at retail and includes a core charge, the full retail selling price of the item, including the core charge, is subject to Retailers' Occupation Tax liability. See 86 Ill. Adm. Code 130.425. (This is a GIL).

October 18, 2000

Dear Ms. Xxxxx:

This letter is in response to your letter dated August 8, 2000. We apologize for the delay in responding to your inquiry. The nature of your letter and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120 subsections (b) and (c), which can be found on the Department's website at <http://www.revenue.state.il.us/legalinformation/regs/part1200>.

In your letter, you have stated and made inquiry as follows:

COMPANY is a wholesale distributor of tire related materials, supplies, tools, and equipment. Our customer base includes tire repair businesses, tire retreaders, and non-tire related manufacturers. I have been asked to determine the taxability of 'core charges' on tool attachments purchased by our customers. Therefore, I forward the following for the state's consideration:

**Scenario:** A customer purchases a total attachment (e.g., rasp) to use in the process of repairing or retreading a tire, in a manufacturing operation, or in a non-manufacturing operation. The customer is charged \$5.00 plus any applicable tax for the rasp and an additional \$1.00 as a deposit to be refunded when the customer returns the worn rasp back to the supplier. The supplier returns the worn rasp to the manufacturer to be regrit and returned for resale.

**Question 1:** Should the customer be charged tax on the \$1.00 deposit?

**Question 2:** If tax is charged on the \$1.00 deposit, when the customer returns the worn rasp to the supplier, should the customer receive \$1.00 plus the tax or should the customer receive only the \$1.00?

I am enclosing a copy of page #189 of our current catalog to assist you with your written reply. Thank you in advance to your prompt attention to this issue.

In Illinois, the gross receipts received from a retail sale are subject to Retailers' Occupation Tax. Gross receipts are defined as all the consideration actually received by the seller, except traded-in tangible personal property. See the enclosed copy of 86 Ill. Adm. Code 130.425. The fact that a component of the gross receipts from the sale of an item of tangible personal property is labeled a "core charge" does not change the taxable nature of the transaction. A core charge is

merely considered a charge for the sale of the core and is always taxable. In the example in your letter, the tax incurred would be based on the total selling price of the rasp (\$6.00).

The core charge is generally regarded as a predetermined trade-in value for the used item. If a core is returned after the date of the original purchase and the retailer's records clearly relate the trade-in to the earlier sales transaction, the retailer can take a deduction from its gross receipts for the trade-in. In those instances the retailer would refund the amount of tax from the earlier transaction based upon the amount of the core charge that is returned to the customer. In your example, if your company's records clearly relate the traded-in rasp to the earlier sale transaction, then it can reduce its gross receipts by \$1.00 and should refund the tax that had previously been paid by the customer on that \$1.00 amount.

If a customer provides tangible personal property of a like kind and character as a trade-in core at the time of the purchase of the new item, the taxable gross receipts (selling price) will be reduced by the amount of value or credit given for the traded-in property. See Section 130.425. In your example, if a customer brought in a worn rasp as a trade-in at the time of purchase of a new rasp, only the \$5.00 amount would be subject to tax.

I hope this information is helpful. The Department of Revenue maintains a website, which can be accessed at [www.revenue.state.il.us](http://www.revenue.state.il.us). If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of Section 1200.110(b) described above.

Very truly yours,

Terry D. Charlton  
Associate Counsel

TDC:msk  
Enc.